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The Financial Market Impact of Quantitative Easing

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Abstract

As part of its response to the global banking crisis and a sharp downturn in domestic economic prospects, the Bank of England's Monetary Policy Committee (MPC) began a programme of large-scale asset purchases (commonly referred to as quantitative easing or QE) in March 2009, with the aim of injecting additional money into the economy and so increasing nominal spending growth to a rate consistent with meeting the CPI inflation target in the medium term. By February 2010, the MPC had made £200 billion of purchases, most of which had been of UK government securities (gilts). Based on analysis of the reaction of financial market prices and econometric estimates, this paper attempts to assess the impact of the Bank's QE policy on asset prices. Our estimates of the reaction of gilt prices to the programme suggest that QE may have depressed gilt yields by about 100 basis points. On balance the evidence seems to suggest that the largest part of the impact of QE came through a portfolio rebalancing channel. The wider impact on other asset prices is more difficult to disentangle from other influences: the initial impact was muted but the overall effects were potentially much larger, though subject to considerable uncertainty.

Keywords: QE, Monetary Policy, Asset Purchases, Asset Prices

JEL Classification: E44, E52, E58

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